

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY, CALIFORNIA
AND RECORD OF ACTION**

38

March 23, 2004

FROM: **DAVID H. SLAUGHTER**, Director
Real Estate Services Department

TOM SUTTON, Interim Director
Special Districts Department

SUBJECT: LEASE AMENDMENTS WITH TIC TWO MANAGEMENT, LLC

RECOMMENDATIONS: Acting as the governing body of County Service Area 70 (CSA 70):

1. Approve Amendment No. 5 to Lease Agreement No. 97-604 with TIC Two Management, LLC to terminate said agreement effective March 31, 2004 for 900 square feet of warehouse space in Victorville for CSA 70.
2. Approve Amendment No. 2 to Lease Agreement No. 95-1110 to increase the leased space by 900 square feet for a total of 8,400 square feet of office space and to extend the term through January 31, 2006 in Victorville for CSA 70 in the amount of \$225,708.

BACKGROUND INFORMATION: On December 19, 1995, the Board, acting as the governing body of CSA 70, approved a seven-year lease agreement (No. 95-1110) with five one-year options to extend for 7,500 square feet of office space at 12402 Industrial Blvd., Building D, Suites 7, 6, 5, 4, a portion of 3, in Victorville. The original term of the lease was February 1, 1996 through January 31, 2003. In the eight years since the lease was originally approved, the Board has approved one amendment, which is summarized below:

<u>Amend. No.</u>	<u>Approval date</u>	<u>Action</u>
1	May 1, 2001	• Approved a Subordination, Nondisturbance and Attornment Agreement between the County and landlord

On July 22, 1997, the Board approved a separate one-year lease agreement (No. 97-604) with one one-year option to extend the term for 900 square feet of warehouse space in the remaining portion of Suite 3 in Building D (identified as Suite 3-D), contiguous to CSA 70's office space at 12402 Industrial Blvd. in Victorville. The original term of the lease was August 1, 1997 through July 31, 1998. In the six years since this lease was originally approved, the manager of CSA 70 and the Board have approved four amendments, which are summarized below:

<u>Amend. No.</u>	<u>Approval date</u>	<u>Action</u>
1	July 8, 1998	• Approved by the manager of CSA 70 • Extended the term one year to July 31, 1999 • Increased the monthly rent from \$405 (\$0.45/sq. ft./modified gross) to \$420 (\$0.47/sq. ft./modified gross)

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<u>Amend. No.</u>	<u>Approval date</u>	<u>Action</u>
2	Aug. 10, 1999	<ul style="list-style-type: none">• Approved by manager of CSA 70• Extended the term three years to August 31, 2002• Increased the monthly rent from \$420 (\$0.47/sq. ft./modified gross) to \$765 (\$0.85/sq. ft. /modified gross)
3	May 1, 2001	<ul style="list-style-type: none">• Approved by the Board• Approved a Subordination, Nondisturbance and Attornment Agreement between CSA 70 and landlord
4	Nov. 5, 2002	<ul style="list-style-type: none">• Approved by the Board• Exercised the one one-year option extending the term to August 31, 2003• Reduced the monthly rent from \$855 (\$0.95/sq.ft./modified gross) to \$675 (\$0.75/sq.ft./modified gross)

On July 14, 2003, the County Administrative Office approved Capital Improvement Program (CIP) Request No. 03-36 for an additional 1,200 square feet of office space for expansion within the same complex for CSA 70. However, CSA 70 determined it was more cost effective to convert the contiguous 900 square feet of warehouse space into office space instead of relocating into 1,200 square feet of space located elsewhere in the complex. CSA 70 requested the Real Estate Services Department (RESA) negotiate to terminate Lease No. 97-604 effective March 31, 2004; add 900 square feet of office space for a total of 8,400 square feet to Lease No. 95-1110; and extend the term three years by exercising the first, second, and third one-year options in the lease.

The landlord has agreed to provide carpet and paint at his expense but is unwilling to absorb or amortize any other construction costs. The remaining remodeling costs to convert the warehouse space to office space will be \$41,000, which includes adding demising walls, a drop ceiling, the relocation of the heating and air conditioning ducts and minor improvements to the existing suites. CSA 70 compared paying these construction costs to the costs of construction to make improvements to another space, together with the ongoing costs of having operations in separate buildings, and determined that paying the \$41,000 of construction costs is more efficient and cost effective. Both lease agreements (No. 95-1110 and 97-604) are in holdover because of extended negotiations with the owner regarding adding improvements to the suites. The lease terms for Lease No. 95-1110 are summarized as follows:

Lessor:	TIC Two Management, LLC (Michael W. Palmer, Manager)
Location:	12408 Industrial Blvd., Building D, Suites 3, 4, 5, 6 and 7, Victorville
Size:	8,400 square feet
Term:	Three years commencing and retroactive to February 1, 2003
Options:	Two one-year options remain

		<u>Cost per sq. ft. per month</u>	<u>Monthly</u>	<u>Annual</u>
Rent:	(old)	\$0.74	\$5,550	\$74,592
	(new)	\$0.79*	\$6,636	\$79,632

*Low range for the Victorville area
(New rate is effective April 1, 2004)

Annual increases: 3% annually

Improvement costs: \$20,000 for carpet and paint throughout to be paid by the Lessor; \$41,000 to be paid in full by CSA 70 upon completion, receipt of paid invoices, and approval by County

Custodial: Provided by County

Maintenance: Provided by Lessor

Utilities: Provided by County

Right to terminate: County has the right to terminate with 90-days notice

Parking: Sufficient for County needs

REVIEW AND APPROVAL BY OTHERS: This item has been reviewed by Special Districts (Debra Andersen, Business Manager, 760-955-7325) on January 14, 2004; County Counsel (Fiona Luke, Deputy County Counsel, 387-5455) on January 21, 2004; and the County Administrative Office [Daniel R. Kopp (387-3828) and Wayne Thies (387-5409), Administrative Analysts] on March 15, 2004.

FINANCIAL IMPACT: The total cost of this three-year amendment is \$225,708. The cost in 2003-04 will be \$69,858 (\$5,550 per month x nine months and \$6,636 per month x three months). Rent payments will be made directly from the CSA 70 budget (SKV 105). Sufficient appropriation is available in the 2003-04 CSA 70 budget. Annual lease costs are as follows:

<u>Year</u>	<u>Annual lease cost</u>	<u>Estimate of other costs associated with this lease</u>
Feb. 1, 2003 - Jan. 31, 2004	\$66,600	\$18,000
Feb. 1, 2004 - Jan. 31, 2005	\$77,460	\$23,520
Feb. 1, 2005 - Jan. 31, 2006	\$81,648	\$20,765

COST REDUCTION REVIEW: The County Administrative Office has reviewed this agenda item, concurs with the department's and RESD's proposal, and recommends this action based on the need for CSA 70 to service the Victorville area. The lease cost is included in the CSA 70 budget. Funding is anticipated to be available for the term of this lease extension. Consolidation of this space with other existing space has been explored and no feasible opportunity exists at this time. The lease can be terminated with 90-days notice.

SUPERVISORIAL DISTRICT: First

PRESENTER: David H. Slaughter, Director, 387-7813

CP: 387-7824

bas: 387-7830